

# Sponsor's Fiscal Note 2011 Biennium

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Bill #	SB0342
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Title:	Student scholarship organizations and tax credits for donations for scholarships
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Primary Sponsor:	Essman, Jeff
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Status:	As Amended in Senate Committee
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact     | <input type="checkbox"/> Needs to be included in HB 2  | <input type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

## FISCAL SUMMARY

	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>	<u>FY 2014 Difference</u>
<b>Expenditures:</b>				
General Fund	\$64,226	(\$1,362,700)	(\$2,867,411)	(\$4,754,381)
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	(\$1,750,000)	(\$1,750,000)	(\$3,000,000)
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance</b>	<u>(\$64,226)</u>	<u>(\$387,300)</u>	<u>\$1,117,411</u>	<u>\$1,754,381</u>

\* See attached for impacts through 2021.

**Description of fiscal impact:** This bill would allow a tax credit for donations to provide scholarships for private schools. This fiscal impact hinges on an exchange between the cost of tax-credits and the savings of public school funding to create a net fiscal impact on Montana's General Fund. The costs of these scholarships to the state are directly related to the tax credits distributed in the previous year. However, these costs are offset by the savings of state expenditures when students leave public schools.

Due to public school funding and tax-credit lags, the program would actually be revenue neutral in its first year, excepting the small cost of hiring a tax examiner to analyze incoming donations and outgoing tax credits. Donations collected in 2011 would be applied to students in that year, though their attached tax-credits would not be redeemable until 2012. Though there would be a noted decrease in public school students in 2011 due to these scholarships, Montana's public schools would not include this loss in their funding formula until 2012.

In Fiscal Year 2012, the proposed program would have a net impact of an estimated loss of \$387,300. However, in future years this impact yields positive returns to the General Fund, saving \$1,117,411 in 2013 and \$1,754,381 in 2014. This trend extends through the course of the program, showing considerable savings to the state.

**FISCAL ANALYSIS****Assumptions:****Department of Revenue**

1. This bill would allow a credit against individual income tax or corporation license tax for 70% of contributions to a charitable organization that provides scholarships for students to attend a private school, to enroll in a distance learning program, or to pay for transportation to a public school in another district. The credit is limited to \$1,000 for a single taxpayer or a married taxpayer filing a separate return and \$2,000 for a married couple filing a joint return. The limit for a corporation begins at \$90,000 or 70% of the tax liability which ever is less for year 2011 and is \$250,000 or 70% of the tax liability which ever is less for year 2021. If the credit is more than the taxpayer's tax liability, the excess credit would not be refunded, but could be carried forward for up to five years
2. For donations to a scholarship organization to be eligible for the credit, the scholarships must be used for tuition and fees at a private school or a distance learning program, recipients must live in a household with income less than 150% of the federal limit for reduced-price school lunches or be in foster care, scholarships must average \$2,000 or less, and the organization must grant three-fourths of its scholarships to public school students who switch to a private school, a distance education program, or an out-of-district public school.
3. The amount of tax credits claimed in this program is assumed to be the maximum amount in each year. This is not unreasonable to assume, due to the program's small size in the first two years, and continued growth afterwards. The number of scholarships can be estimated through understanding the price elasticity of private schooling in Montana. This elasticity was estimated at -.75, as referenced in Brian Gottlob's 2009 study.

Though the program's eligibility cap reduces the demand for these scholarships, a conservative estimate of 1,243 students in public schools can be expected to apply for scholarships at an average of \$2,000 per student. This number excludes private school demand, as current private school students are not eligible for participation.

4. Scholarship organizations are assumed to receive enough donations to fund these scholarships. Individual donors are assumed to donate no more than the amount that would give them the maximum credit.
5. For the 2008-2009 school year, 150% of the federal income limit for reduced-price school lunches is \$28,860 per household plus \$9,990 for each household member after the first. For example, for a family of four, it is \$58,830 (\$28,860 + 3 x \$9,990). On 2007 tax returns, 60% of dependents were claimed on returns where the income was below the limit implied by the number of taxpayers and dependents reported on the return. Because of this, the income limit for scholarships is unlikely to limit the number of scholarships.
6. According to the Montana Department of Education, U.S. Department of Education, and the U.S. Census Bureau, there are about 10,000 students in private schools in Montana.
7. In the 2011-2012 school year, the program's first year of awarding scholarships, the demand for scholarships (1,243) will outstrip the available supply of scholarships (1,119) in a program with a \$1.75 million cap. These scholarships will only be available to current public school students, students entering from out of state and students entering kindergarten. Total scholarships awarded would be \$2,237,500, or 95% of the \$2.5 million in

**Sponsor's Fiscal Note***(continued)*

donations received. These donations occur in FY 2011 for application for the 2011-2012 school year. Credits for these donations would be claimed on returns in FY 2012.

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>
Scholarship value:	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,000</u>	<u>\$2,000</u>
Amount of total public donations to Scholarship Granting Organizations	\$2,500,000	\$2,500,000	\$4,285,714	\$5,714,286
Amount of money dispersed by tax-credits (to be redeemed in spring of next year)	\$1,750,000	\$1,750,000	\$3,000,000	\$4,000,000
Cost of Public School Student Scholarships	\$0	\$1,750,000	\$1,750,000	\$3,000,000
\$ Available for Scholarship Programs*	\$2,237,500	\$2,237,500	\$3,835,714	\$5,114,286
Scholarships Available*	1,119	1,119	1,918	2,557
Demand for Scholarships	1,243	1,243	1,243	1,386
Scholarships Awarded to Public School Students	1,119	1,119	1,243	1,386
Students Accounted For As Transferred by State Funding Formula (Three year average enrollment)	0.00	373.00	746.00	1,191.56
State Education Aid Savings (# of Scholarships x Per-Student Savings); Per-student savings defined as \$3,355.22				
*1.038888 by OPI, plus 3% annual inflation	\$0	\$1,420,726	\$2,926,695	\$4,814,955
Net State Fiscal Impact	\$0	(\$329,274)	\$1,176,695	\$1,814,955

8. This bill would require the Department of Revenue to process and pre-approve credit applications, verify that taxpayers have made the donations for which they have applied to receive a credit, review annual reports from scholarship organizations to verify that they and the students they grant scholarships meet the requirements of this bill, and process additional documents filed with claimants' tax returns.
9. These responsibility for these additional duties would be performed by the newly formed Student Scholarship Organizations (SSOs). Funding for these SSOs is a product that can be no greater than 10% of total donations. In most programs, these average operational costs are 5% of total donations, which is the assumption that is carried over to these estimates. However, these additional services may fall outside the range of SSOs, and may require additional analysis from a tax examiner. This cost is examined in assumption 18.
10. 5.5% of donations will be used to fund transportation grants for participating students.
11. The department would need to develop a new form for taxpayers to apply to receive the credit. The cost for developing the new form would be \$1,700 in FY 2010. Changes to income tax returns and instructions would be made as part of the annual update process.

**Office of Public Instruction**

12. Public school enrollment in the fall of 2008 was 141,969. Assumption #7 estimates that all 1,119 scholarships available at a value of \$2,000 will be used by public schools students.
13. Once a public school student transfers to a private school, the student will continue to be eligible for the scholarship (the student meets the requirement that the student was a full-time public school student when first granted a scholarship).
14. These 1,119 students will reduce ANB counts in FY 2012 by 1,119 ANB, the year after they transfer out of the public school system. However, with 3-year averaging of ANB (20-9-311, MCA.) there would be less than a 1,119 ANB decrease in school district budgets. The total decrease would not be realized until FY 2015.

15. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates and estimated property tax values.
16. The per-ANB entitlements are projected to be \$5,003 for elementary ANB and \$6,405 for high school ANB in FY 2011 and beyond.
17. The savings to the state general fund for decreased direct state aid, guaranteed tax base aid, county retirement, and Indian education for all the decrease of these students in the public school system is \$0.4 million in FY 2011, \$1.8 million in FY 2012, and \$2.8 million in FY 2013.
18. If additional tax analysis is necessary outside of the scope of what the SSOs can perform, a tax examiner may be necessary to ensure that the program adheres to certain standards. Below is the Fiscal Impact of employing an additional tax examiner.

	<u>FY 2010</u> <u>Difference</u>	<u>FY 2011</u> <u>Difference</u>	<u>FY 2012</u> <u>Difference</u>	<u>FY 2013</u> <u>Difference</u>
<b><u>Fiscal Impact:</u></b>				
FTE	1.00	1.00	1.00	1.00
<b><u>Expenditures:</u></b>				
Personal Services	\$50,330	\$50,330	\$51,588	\$52,878
Operating Expenses	\$8,996	\$7,696	\$7,696	\$7,696
Equipment	\$4,900	\$0	\$0	\$0
Benefits	\$0	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<u>\$64,226</u>	<u>\$58,026</u>	<u>\$59,284</u>	<u>\$60,574</u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	<u>\$64,226</u>	<u>\$58,026</u>	<u>\$59,284</u>	<u>\$60,574</u>
<b>TOTAL Funding of Exp.</b>	<u>\$64,226</u>	<u>\$58,026</u>	<u>\$59,284</u>	<u>\$60,574</u>

**Effect on County or Other Local Revenues or Expenditures:**

1. Local districts stand to save more, as they experience no lost revenue as a result of tax credits distributed for scholarships. The average local share of per-student funding in Montana was projected to be \$3,536 in the 2011-2012 school year.
2. Each student that accepts a scholarship to leave public schools may reduce local education spending by \$3,536 each year if local school trustees choose to reduce their budget. They may elect to keep the budget authority if their budget is under the maximum budget allowed by the school funding formula.

**Sponsor's Fiscal Note***(continued)*

	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>	<u>FY 2014 Difference</u>
<b>Expenditures:</b>				
Local Education Spending	\$0	(\$1,318,928)	(\$2,716,992)	(\$4,469,951)
<b>Revenue:</b>				
Local Education Spending	\$0	\$0	\$0	\$0
<b>Net Impact-General Fund Balance</b>	<u>\$0</u>	<u>\$1,318,928</u>	<u>\$2,716,992</u>	<u>\$4,469,951</u>

*\* See attached for impacts through 2021.***Long-Range Impacts:**

1. The long term fiscal impact on the state can be found in the difference between tax-credit expenditures (including potential program costs) and savings created by a smaller student population in public schools. Over the course of the defined program (from 2011 to 2021), aggregate State General Fund expenditures would be reduced by a total of \$11,417,068 and Local Education spending may be reduced by a total of \$63,866,047.

**Technical Notes:**

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*Sponsor's Signature*

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*Date*